

Message Text

CONFIDENTIAL

PAGE 01 LISBON 05271 01 OF 02 091945Z
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 TRSE-00 FRB-01 SSO-00 NSCE-00
NSC-05 INR-05 CIAE-00 OMB-01 L-01 PRS-01 USIE-00
INRE-00 SP-02 EB-04 /043 W
-----127318 092004Z /62

O 091851Z JUL 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC NIACT IMMEDIATE 2104

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 5271

LIMDIS

TREASURY FOR SYVRUD.
DEPT PASS FEDERAL RESERVE BANK.

E.O. 11652: XGDS-4
TAGS: EFIN, PO
SUBJ: FINANCIAL CRISIS

REF: (A) LISBON 5177, (B) LISBON 5272

1. I MET TODAY (JULY 9) WITH MARIO SOARES AND
FINANCE MINISTER MEDINA CARREIRA TO DISCUSS CURRENT
FOREIGN EXCHANGE CRISIS (DCM HAD EARLIER SEEN CARREIRA ON
STATE 158585). I TOLD THEM WASHINGTON WAS SYMPATHETIC TO
THEIR PROBLEM BUT WE WANTED TO BE CERTAIN THAT THE GOP WAS
TAKING THE NECESSARY MEASURES TO DEAL WITH SITUATION BEFORE
WE COULD CONTEMPLATE ANY FURTHER AID. EVEN SO, I WAS NOT
CERTAIN THAT THE NECESSARY MECHANISM EXISTED TO PROVIDE
IMMEDIATE RELIEF. HOWEVER, THIS WAS A SECONDARY CONSIDERATION.
WE HAD ALREADY DEMONSTRATED OUR INTEREST IN SUPPORTING PORTUGUESE
DEMOCRACY. BUT WE COULD NOT PROVIDE FURTHER ASSISTANCE IF IT
WAS SIMPLY POSTPONING THE INEVITABLE.

2. SOARES SAID HE FULLY UNDERSTOOD OUR POSITION. THERE WAS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 05271 01 OF 02 091945Z

NO POINT IN GIVING OXYGEN TO A DEAD PATIENT. HOWEVER HE
WAS CONVINCED THAT THE GOVERNMENT COULD TAKE THE NECESSARY
MEASURES AND, WITH OUR HELP, WORK ITS WAY OUT OF WHAT WAS
ESSENTIALLY A SHORT-TERM CRISIS. HE RECALLED THAT ORIGINAL
USG-GOP DISCUSSIONS ON THE LARGE LOAN HAD IMPLIED AN EARLIER
AVAILABILITY. WHEN THE GOP HEARD ABOUT THE DELAY THEY
INDICATED TO US THAT THEY WOULD HAVE A TRANSITION PROBLEM.

THEY HAD THOUGHT THE CRUNCH WOULD COME IN AUGUST, BUT FOR REASONS THEY DID NOT COMPLETELY UNDERSTAND IT OCCURRED EARLIER.

3. THE UNITED STATES HAD PERFORMED A MAGNIFICENT FEAT IN ARRANGING A MULTINATIONAL LENDING PROGRAM FOR PORTUGAL. NEVER IN RECENT EUROPEAN HISTORY HAD THERE BEEN A PARALLEL EFFORT WHERE SOME FIFTEEN COUNTRIES JOINED TOGETHER TO HELP AN ALLY IN NEED. WE HAD CLEARLY SHOWN OUR WILLINGNESS TO BE SUPPORTIVE. WE COULD BE ASSURED IN TURN THAT THE GOP WOULD CONTINUE TO TAKE THE NECESSARY MEASURES TO PUT THE ECONOMY ON A SOUND FOOTING. THE GOP WAS UNSURE OF THE ORIGINS OF THE PRESENT CRISIS, BUT HE PERSONALLY DOUBTED THAT IT WAS DUE ENTIRELY TO A FLIGHT OF SPECULATIVE CAPITAL. THAT WAS OF COURSE PART OF THE PROBLEM, BUT IT WAS ALSO POSSIBLE THAT THE ECONOMIC RECOVERY HAD LED TO AN INCREASE IN IMPORTS.

4. SOARES SAID THERE EXISTED A DIVISION OF OPINION WITHIN THE COUNCIL OF MINISTERS ON HOW TO DEAL WITH THE CRISIS. THE FINANCE MINISTER FAVORED BELT-TIGHTENING -- STRONG MEASURES PERHAPS INCLUDING RATIONING. THE MINISTER OF PLANNING, ON THE OTHER HAND, HAD MORE OF A DEVELOPMENTAL APPROACH, AND ARGUED THAT STRONG MEASURES NOW WOULD ONLY HAMPER RECOVERY. THUS THE PRIME MINISTER HAD ORDERED AN URGENT EXAMINATION TO (A) DETERMINE AS BEST THEY COULD THE ORIGINS OF THE PRESENT CRISIS; AND (B) MAKE RECOMMENDATIONS ON FUTURE COURSES OF ACTION. MONDAY'S RESERVE LEVEL WOULD BE CRUCIAL.
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 05271 01 OF 02 091945Z

IT WOULD BE ANALYZED CLOSELY AND THE GROUP ORDERED TO REPORT BY THE MIDDLE OF NEXT WEEK. IN THE MEANTIME, AS WE HAD SUGGESTED, THE GOP HAD ASKED THE IMF TO SEND A REPRESENTATIVE TO LISBON FOR DETAILED CONVERSATIONS. THE GOP WOULD ALSO WELCOME A VISIT FROM A US REPRESENTATIVE. THIS COULD BEST TAKE PLACE THE SECOND HALF OF NEXT WEEK AFTER THE TASK FORCE HAD MADE ITS REPORT.

5. I ASKED FOR SPECIFICS ON THE MEASURES LIKELY TO BE ADOPTED, BUT SOARES WAS NOT PREPARED TO DISCUSS THEM IN DETAIL. NEVERTHELESS HE MADE THE POINT THAT HE WAS PREPARED TO GO AS FAR AS THE POLITICAL LIMITS WOULD TOLERATE. A SERIES OF MEASURES DEALING PRINCIPALLY WITH ELIMINATION OF SUBSIDIES AND INCENTIVES FOR PRIVATE INDUSTRY HAD ALREADY BEEN APPROVED BY THE COUNCIL OF MINISTERS. ORDERS WERE BEING GIVEN TO ACCELERATE GOLD SALES TO THE EXTENT THE MARKET WOULD SUPPORT THEM. BUT TO ANNOUNCE EXTREME MEASURES WHILE THE ASSEMBLY WAS STILL IN SESSION WOULD PREJUDICE SOME OF THE MORE FUNDAMENTAL MEASURES, E.G. AGRARIAN REFORM AND INDEMNIZATION FOR NATIONALIZED ASSETS, NOW UNDER CONSIDERATION. HE NOTED THAT CONSIDERABLE BELT-TIGHTENING HAD ALREADY TAKEN PLACE AND THAT THE COST OF LIVING WAS RISING ABRUPTLY, RESULTING IN A SUBSTANTIAL DECREASE

IN REAL WAGES. I RAISED DEVALUATION; HE REPLIED THIS CARRIED
WITH IT CONSIDERABLE SOCIAL AND POLITICAL COST BUT WAS
UNDER CONSIDERATION.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 LISBON 05271 02 OF 02 092000Z
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 TRSE-00 FRB-01 SSO-00 NSCE-00
NSC-05 INR-05 CIAE-00 OMB-01 L-01 PRS-01 USIE-00
INRE-00 SP-02 EB-04 (ISO) W
-----027564 122315Z /62

O 091851Z JUL 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC NIACT IMMEDIATE 2105

C O N F I D E N T I A L SECTION 2 OF 2 LISBON 5271

LIMDIS

TREASURY FOR SYVRUD.
DEPT PASS FEDERAL RESERVE BANK.

6. SOARES SAID THAT AS SOON AS THE ASSEMBLY RECESSES ON
JULY 23 HE PLANS A MAJOR SPEECH. HE WOULD ANNOUNCE A SERIES
OF TOUGH NEW MEASURES THAT THE GOVERNMENT WAS TAKING. HE
WOULD ALSO TAKE ON THE THANKLESS CHORE OF TELLING THE PEOPLE
THAT THE GOVERNMENT IS SELLING GOLD. (THE FINANCE MINISTER
NOTED THAT THE GOP COULD SELL US GOLD ONLY UNTIL THE LAST
DAY OF THE CURRENT MONTH, AT WHICH TIME IT WOULD HAVE TO START
SELLING ITS OWN.)

7. SOARES SAID IT WAS NECESSARY TO LOOK AS THESE MATTERS IN
A POLITICAL CONTEXT. THE PCP WAS ON THE DEFENSIVE, BUT WAS
PLANNING A LAST DITCH STAND. THE NEXT FEW MONTHS WOULD BE
DECISIVE. HE HAD DISCUSSED THE CRISIS WITH PRESIDENT AND HAD
TOLD HIM THAT THE GOVERNMENT COULD ONLY GO SO FAR IN BELT-
TIGHTENING AT THE SAME TIME IT SEEKS CORRECTIVE MEASURES,
AND STILL OPERATE UNDER A DEMOCRATIC SYSTEM. IF IT PASSED
THESE LIMITS, SOCIAL UNREST WOULD BECOME INTOLERABLE AND
AUSTERITY COULD THEN ONLY BE IMPOSED AS GUNPOINT.
THE PRESIDENT, AND SOARES FULLY SHARED HIS VIEW, HAD
HAD INDICATED STRONG DISTASTE FOR GOING THE AUTHORITARIAN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LISBON 05271 02 OF 02 092000Z

ROUTE. IN THIS CONNECTION SOARES SAID HE FELT THE PRESENT CRISIS WAS TEMPORARY, THAT OVERALL ECONOMIC INDICATORS WERE MOVING IN A FAVORABLE DIRECTION AND THAT THE MULTI-LATERAL LENDING PROGRAM WOULD SOON PROVIDE THE GOP WITH THE MEDIUM-TERM FLEXIBILITY IT NEEDED.

8. I TOLD SOARES I WOULD REPORT HIS VIEWS TO WASHINGTON, BUT REMINDED HIM IT WAS IMPORTANT THAT WE HAVE A CLEAR UNDERSTANDING OF THE SPECIFIC ACTIONS THE GOP WAS PREPARED TO TAKE. I ADDED THAT WITHOUT ATTEMPTING TO INTERFERE IN INTERNAL AFFAIRS I PERSONALLY FAVORED THE POSITION OF THE FINANCE MINISTER. THE CRISIS COULD ONLY BE MET BY TAKING DRAMATIC ACTION. SOARES SAID HE FULLY UNDERSTOOD OUR POSITION, APPRECIATED OUR SUPPORT, AND WOULD BE PREPARED TO PROVIDE US WITH SPECIFICS THE MIDDLE OF NEXT WEEK.

9. COMMENT: SOARES IS ALWAYS UPBEAT IN HIS OUTLOOK BUT HIS CONCERN WAS EVIDENT THROUGHOUT OUR CONVERSATION, PARTICULARLY WHEN HE RELATED HIS CONVERSATION WITH THE PRESIDENT ON THE LIMITATIONS OF A DEMOCRATIC SYSTEM. NEVERTHELESS HIS APPROACH WAS MORE MEASURED THAN THAT OF THE FINANCE MINISTER DURING OUR FIRST CONVERSATION ON THIS SUBJECT (REFTEL A). THIS WAS PROBABLY DUE TO TWO FACTORS (A) SOARES UNDERSTANDS BETTER THE WORKINGS OF OUR CONGRESS AND THE POLITICAL DIMENSIONS WITHIN WHICH WE MUST OPERATE AND (B) THE BIS APPARENT WILLINGNESS COMMUNICATED JULY 8 TO LEND \$100 MILLION (REFTEL B) GIVES THE GOP A LITTLE BREATHING SPACE. SOARES DOES NOT EXPECT US TO DO ANYTHING UNTIL HE COMPLETES HIS ANALYSIS AND DECIDES ON SPECIFIC MEASURES, AND HE AGREED THAT THE US COULD NOT PROVIDE ANY MORE LOANS -- EVEN OF A SHORT-TERM NATURE -- IF THEY AMOUNTED TO POSTPONING THE INEVITABLE.

10. SOARES DID INDICATE THAT HE SUPPORTED GOLD SALES TO THE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LISBON 05271 02 OF 02 092000Z

LIMIT THE MARKET WOULD BEAR AND WAS PREPARED TO ACCEPT THE POLITICAL HEAT THIS WOULD INEVITABLY ENTAIL. HE ALSO AGREED THAT FURTHER BELT-TIGHTENING MEASURES WERE INEVITABLE, BUT ARGUED THAT THESE SHOULD BE CAREFULLY CALCULATED (A) TO AVOID INTOLERABLE SOCIAL UNREST AND (B) TIMED NOT TO UPSET THE GOVERNMENT'S LEGISLATIVE PROGRAM. HE THOUGH HE COULD WALK THIS TIGHTROPE. HE DISPLAYED NO HESITATION IN ACCEPTING A MORE ACCELERATED DIALOGUE WITH THE IMF.

11. I RECOMMEND THAT WE RESPOND FAVORABLY TO SOARES' REQUEST THAT A WASHINGTON REPRESENTATIVE COME TO LISBON NEXT THURSDAY

TO ENGAGE IN A DIALOGUE WITH THE GOP ON SPECIFIC MEASURES.
I AM SURE THAT AS IN THE PAST SOARES WILL BE RESPONSIVE TO
OUR SUGGESTIONS WITHIN THE LIMITS OF POLITICAL TOLERANCE;
OF COURSE HE WANTS HELP, BUT BASICALLY HE IS TURNING TO US
NOT IN AN OPPORTUNISTIC SENSE BUT AS ONE WHO FULLY UNDERSTANDS
AND APPRECIATES THE USG'S CONTINUING EFFORTS TO GIVE PORTUGAL'S
FLEDGLING DEMOCRATIC INSTITUTIONS A CHANCE TO SUCCEED.
CARLUCCI

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL CRISIS, DIPLOMATIC DISCUSSIONS, FOREIGN EXCHANGE RATES, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Jul-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LISBON05271
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: X4
Errors: N/A
Expiration:
Film Number: D770245-0021
Format: TEL
From: LISBON
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770774/aaaacmuc.tel
Line Count: 232
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: d2918a6e-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 77 LISBON 5177, 77 LISBON 5272
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 01-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1913618
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL CRISIS
TAGS: EFIN, PO, US, (SOARES, MARIO), (CARREIRA, MEDINA)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/d2918a6e-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009